revenue properties company limited

1978

annual report

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DIRECTORS

Richard A. Bain, Toronto,
Partner, Siegal, Fogler, barristers and solicitors

Watson W. Evans, Toronto,
Retired

Maxwell Goldhar, Toronto,
President, Revenue Properties Company Limited

Paul W. Hellen, Toronto,
Solicitor, Revenue Properties Company Limited

Ken Kelman, Toronto,
Vice-President, First Canada Financial Corporation Limited

Gurston I. Rosenfeld, Toronto,
President, Guardian Growth Financial Services Limited

C. Harris Tod, C.A., Toronto,
Executive Vice-President, Revenue Properties Company Limited

Sara Tuberman, Toronto,
Treasurer, Revenue Properties Company Limited

Michael G. Wright, Montreal,
Chief Executive Officer, Les Aménagements Revcon

OFFICERS

President: Maxwell Goldhar
Executive Vice-President: C. Harris Tod, C.A.
Vice-President: Paul W. Hellen
Vice-President: John B. Good
Vice-President: E. William Selkirk
Secretary: Richard A. Bain
Treasurer and Assistant Secretary: Sara Tuberman
Controller: M.B. Cassinath, C.A.

AUDITORS

Thorne Riddell & Co.

COMMON SHARES

Registrar & Transfer Agent
National Trust Company, Limited

Co-Registrar & Co-Transfer Agent
The Canadian Bank of Commerce Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Toronto, Ontario M5H 3A3

TO THE SHAREHOLDERS:

It is a pleasure to report to you that your company earned a profit of $361,000 or 2.6¢ per share in 1978, compared to a loss of $2,835,000 or 20¢ per share in 1977. The 1978 profit included a net amount of $826,000 received in settlement of a lawsuit in the Supreme Court of Canada related to compensation for lands expropriated for the Pickering Airport in 1973. Also included is an extraordinary item of $361,000 relating to deferred income tax reduction compared to a similar item of $205,000 in 1977.

Both income from revenue producing real estate and property operating expenses increased substantially in 1978 despite the sale of three revenue producing buildings. This is mainly the result of three new apartment buildings being included in the 1978 operations. The Company has a 50% interest in two of these buildings containing a total of 728 suites, which it built under a construction contract and which it now leases from the owners. The profit from this contract was deferred to cover anticipated losses and is being brought into income over the minimum term of the lease. Accordingly $375,000 of deferred income has been included in income from revenue producing real estate for the year ended December 31, 1978. The company has a 66-2/3% interest in the third new apartment building which contains 462 suites. The gross profit as a percentage of rental income has declined from 1977 to 1978 primarily due to the fact that the two new apartment buildings built under a construction contact did not contribute to the gross profit.

The sale of revenue producing real estate varies significantly from year to year. In 1978 three revenue producing properties were sold generating a profit of $450,000. The company expects to continue to sell older industrial buildings as favourable opportunities arise. The profits (if any) which may result from such sales cannot be predicted.

In 1976 the company began constructing high-rise apartment buildings for sale to investors seeking tax shelter opportunities offered by the Income Tax Act of Canada to owners of Multiple Unit Residential Buildings or MURBs. During 1978 the company sold approximately one half of a high-rise apartment building on this basis, the other half having been sold in 1977. The company is constructing two more buildings containing approximately 455 apartments which it intends to sell as MURBs in 1979.

Sale of new housing units in the Toronto area continues to be depressed. During 1978 management decided to reduce the selling prices on some housing units and some units were sold at a loss. At the end of 1978 the company had only a few housing units in the Toronto area that were unsold.

Although sales of construction and land were approximately the same in 1977 and 1978, the gross profit percentage increased because of the sales mix and despite losses recognized on housing construction in the Toronto area to which I referred above. During the year the company was quite successful in selling land from the surplus land bank in Uxbridge at approximately the prices to which it was written down in 1977. Sales in 1979 to date are continuing at a satisfactory level.

During 1978 the balance of the Sheridan Hills subdivision in Oakville, Ontario, in which the company has a 17-1/2% interest, was serviced, and the sale of all but a very small part of the land was completed. In 1979 the company expects to start servicing part of the 215 acres on the northern boundary of Metro Toronto in which it has an interest of approximately 44%. Although only a limited number of homes can be hooked up to sanitary services before 1981, the company expects to realize some profit and cash flow from the project in 1980.

Housebuilding activities in Boucherville, Quebec, continued at about the same level as in previous years until the zero lot line building concept was introduced by the Company for the first time in the province. Since then sales of new houses have increased and give every indication of providing the best year to date in 1979.

In October 1978 construction was started on 25 houses in Port Dover, Ontario, on lots which were acquired at that time. More than half have been sold to date and the next stage of construction on an additional 250 lots which have been optioned started in April, 1979. The opening of the new Steel Company of Canada plant at Nanticoke (about five miles from Port Dover) in 1979, with its attendant shift in working population, is expected to stimulate demand for the homes which the Company is producing in an attempt to satisfy the housing needs of the average Stelco employee.

Late in 1978 a parcel of land in Mississauga, Ontario, (a neighbouring municipality to Metropolitan Toronto) was acquired and construction of an Office Park, based on the design of the company's Place Frontenac in Pointe Claire, Quebec, was commenced. Since the year end a leasehold interest in the project was syndicated through Burns, Fry Limited, members of the Toronto Stock Exchange. The syndication will provide a guaranteed income to unit holders in the syndicate for a limited period of time, give them an opportunity to earn an excellent return on their investment after taxes, and still permit the company to share with them any future growth in income and capital appreciation. The transaction should provide a modest profit to the company in 1979.

Interest paid and charged to income during 1978 increased as the result of mortgage interest on new apartment buildings, a significant increase in the cost of money borrowed for current operating purposes, and the decision to cease capitalizing interest relating to surplus land and certain joint ventures.

The Canadian economy appears to be improving and the climate for the real estate industry is more optimistic than it has been for the last few years.

On behalf of the Board of Directors

M. GOLDHAR, President.

Toronto, Canada,
March 30, 1979

revenue properties company limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

December 31

	Note No.	**1978 $000's**	1977 $000's
ASSETS			
Revenue producing real estate	2	**46,698**	47,281
Construction in progress	3	**13,343**	11,057
Land held for and under development	4	**29,960**	28,081
Surplus land	5	**5,774**	7,443
Accounts and mortgages receivable	6	**13,207**	13,976
Deferred currency adjustment	11	**928**	1,268
Other assets	7	**1,719**	2,573
Cash	8	**931**	2,027
		112,560	113,706
LIABILITIES			
Mortgages payable on revenue producing real estate	9	**35,203**	36,356
Other loans and mortgages payable	10	**23,169**	22,183
Sinking fund debentures	11	**6,084**	7,973
Bank indebtedness	12	**12,362**	12,141
Accounts payable and accrued liabilities		**7,109**	5,982
		83,927	84,635
Deferred income	13	**3,534**	3,935
Deferred income taxes		**3,271**	3,669
		90,732	92,239
SHAREHOLDERS' EQUITY			
Capital stock	14	**27,324**	27,324
Deficit		**(5,496)**	(5,857)
		21,828	21,467
		112,560	113,706

Approved by the Board:

, Director   , Director

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 31
(1977 as reclassified)

	1978 $000's		1977 $000's	
Rental Operations				
Income from revenue producing real estate		**14,982**		12,767
Property operating expenses	**10,643**		8,621	
Depreciation	**460**	**11,103**	436	9,057
Gross profit		**3,879**		3,710
Sales of revenue producing real estate	**1,187**		3,475	
Cost of sales	**737**		3,408	
Gross profit		**450**		67
Sales of construction, land held for development and surplus land	**14,977**		14,513	
Cost of sales	**14,565**		14,263	
Gross profit		**412**		250
Interest and other income		**926**		1,403
Gross profit from operations		**5,667**		5,430
Deduct: Interest expenses less amounts capitalized (Note 18 (a))	**4,840**		4,210	
Administration and general expenses	**1,691**		1,956	
Proceeds of lawsuit net of costs (note 17)	**(826)**		—	
Provision for loss on real estate	**—**	**5,705**	3,927	10,093
Loss before income taxes and extraordinary item		**(38)**		(4,663)
Deferred income taxes (Note 21)		**(38)**		(1,623)
Loss before extraordinary item		**—**		(3,040)
Extraordinary item				
Deferred income tax reduction on recognition of prior years' timing differences		**361**		205
Net income (loss)		**361**		(2,835)
Earnings (loss) per share (Note 18 (b))				
Before extraordinary item		**—**		(21.5¢)
After extraordinary item		**2.6¢**		(20.0¢)

CONSOLIDATED STATEMENT OF DEFICIT

Years Ended December 31

	1978 $000's	1977 $000's
Deficit at beginning of year	**5,857**	3,022
Net income (loss)	**361**	(2,835)
Deficit at end of year	**5,496**	5,857

AUDITORS REPORT

To the Shareholders of
Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries, joint ventures and partnership as at December 31, 1978 and 1977 and the consolidated statements of income, deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies, joint ventures and partnership as at December 31, 1978 and 1977 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Thorne Riddell & Co.

Chartered Accountants

Toronto, Canada
March 23, 1979

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended December 31

SOURCE OF FUNDS	1978 $000's	1977 $000's
Cash flow from operations	**36**	—
Net changes in:		
Mortgages receivable	**479**	338
Bank loans	—	1,447
Other assets & liabilities	**2,742**	—
Investment in revenue producing real estate and revenue producing real estate under construction	—	1,914
Land held for and under development and surplus land	—	3,057
	3,257	6,756

APPLICATION OF FUNDS		
Cash used in operations	—	327
Net changes in:		
Bank loans	**343**	—
Loans and mortgages payable	**167**	218
Sinking fund debentures	**1,889**	1,893
Other assets and liabilities	—	2,677
Investment in revenue producing real estate and revenue producing real estate under construction	**108**	—
Land held for and under development and surplus land	**210**	—
Other projects under construction	**2,200**	2,283
	4,917	7,398
DECREASE IN FUNDS	**(1,660)**	(642)
	3,257	6,756

Funds are defined as:		
Cash	**931**	2,027
Bank indebtedness, unsecured	**1,568**	1,004
	(637)	1,023

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1978 and 1977

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries, joint ventures and partnership unless the context indicates otherwise. All dollar amounts included in these notes are expressed in Canadian Dollars. At December 31, 1978 the U.S. Equivalent of a Canadian Dollar was 84.33 cents (U.S.).

1. Summary of accounting policies

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) Principles of consolidation

The consolidated financial statements include the following:

— the accounts of all companies in which the Company holds more than 50% of the voting equity. The principal wholly owned active subsidiaries are:

One Thirty One Bloor West Limited
Revcon Developments Limited
Revenue Properties Central Developments Limited

— the proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures and partnership.

(b) Capitalization of costs

(i) The Company follows the policy of capitalizing direct carrying costs such as mortgage interest, realty taxes and other related costs to land held for and under development and construction in progress. With respect to construction of revenue producing real estate, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved and the project has attained a breakeven position subject to a reasonable maximum period of time.

(ii) The Company also capitalizes that portion of interest on general borrowings considered applicable to land held for and under development and construction in progress. During 1978 the Company ceased capitalizing interest on its equity in certain joint ventures since it has not been established that such amounts could be recovered from future revenues.

(c) Income recognition

(i) Sales of housing and land

Income from these transactions is recognized as follows:

House sales	— at the date when title passes, at least 5% of the purchase price has been received, and all material conditions have been fulfilled or provided for.
Condominium sales	— when the amount due on closing is received, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price.
Land sales	— when all material conditions have been fulfilled, at least 15% of the purchase price has been received, and interest has commenced to accrue at a reasonable rate on the balance due.

(ii) Construction income

Income from construction contracts is recorded on a percentage of completion basis.

(d) Depreciation on revenue producing real estate

Depreciation on buildings is provided under the sinking fund method. Under this method depreciation is charged to income in amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the buildings over their estimated useful lives of 50 years.

Depreciation on furniture and equipment is provided on a straight-line basis over a 10 year period.

(e) Deferred income

(i) The Company follows the policy of deferring its profit on sale and leaseback and similar transactions as sales occur from time to time. This profit is being taken back into income on a straight-line basis over the term of the leaseback and is included in income from revenue producing real estate.

(ii) Where the Company sells buildings and provides cash flow guarantees, the portion of the sales price which is determined to be applicable to such guarantees is recorded as deferred income. Similarly, where the Company constructs buildings under a construction agreement and leases same, the portion of the contracting profits which is determined to be applicable to operating losses anticipated to occur during the minimum period of the lease, is recorded as deferred income. These amounts are transferred to income in amounts which are determined at the time of providing the guarantee or the commencement of the lease.

2. Revenue producing real estate

	1978 $000's	1977 $000's
Land, buildings and equipment at January 1, less accumulated depreciation of $2,815,000 (1977; $2,486,000)	**47,281**	39,769
Additions during year	**590**	11,346
	47,871	51,115
Less: Disposal at net book value	**713**	3,398
Depreciation expense for the year	**460**	436
Balance December 31, at cost, less accumulated depreciation of $3,176,000 (1977; $2,815,000)	**46,698**	47,281

The cost of freehold land included at December 31 in the above is $2,627,000 (1977; $2,665,000).

3. Construction in progress

	1978 $000's	1977 $000's
Revenue producing real estate		
Industrial and commercial	**2,259**	2,028
Other Projects		
Housing	**3,930**	4,877
Multiple unit residential buildings	**6,256**	4,152
Commercial	**898**	—
	13,343	11,057

4. Land held for and under development

	1978 $000's	1977 $000's
Land		
Ontario	**25,787**	23,996
Quebec	**4,173**	4,085
	29,960	28,081

Land held for and under development is shown at cost and was increased during the year by interest and other carrying costs of $3,717,000 ($3,118,000 in 1977).

A further $226,000 would have been capitalized during 1978 had the Company not ceased capitalizing interest on certain of its joint ventures (See note 1 (b) (ii)).

5. Surplus land

During 1977 the Company determined that a large part of its land assembly in Uxbridge, Ontario should be sold without development and accordingly reclassified this portion of the land as surplus land. The Company does not capitalize carrying costs and interest applicable to its investment in surplus lands.

6. Accounts and mortgages receivable

	1978 $000's	1977 $000's
Mortgages receivable	**7,126**	7,605
Balances receivable for land sold under agreements of purchase and sale	**2,194**	2,283
Rents and other receivables	**1,960**	2,542
Amount due from partner secured by the partner's portion of the partnership assets (See note 22)	**1,927**	1,546
	13,207	13,976

Mortgages receivable, including $3,153,000 on certain properties leased back, bear interest at rates which vary from 5-1/4% to 10-3/4%, weighted average 8.3%, mature at various dates to 1999 as follows:

	$000's
1979	654
1980	374
1981	442
1982	384
1983	300
1984 and subsequent	4,375
	6,529
Second mortages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6-1/4% to 10-1/2%)	597
	7,126

Some mortgages receivable are pledged against loans payable (see note 10).

7. Other assets

	1978 $000's	1977 $000's
Prepaid expenses	**1,033**	1,002
Costs recoverable from tenants	**449**	420
Sundry investments at equity	**237**	178
Deposit held in trust securing note payable	**—**	973
	1,719	2,573

8. Cash

	1978 $000's	1977 $000's
Cash and short-term deposits	**759**	1,864
Cash in escrow	**172**	163
	931	2,027

9. Mortgages payable on revenue producing real estate

Mortgages payable bear interest at rates which vary from 6-1/4% - 12-5/8%, weighted average 9.2%, and mature at various dates to 2027 as follows:

	$000's
1979	2,645
1980	1,632
1981	1,168
1982	1,418
1983	800
1984 and subsequent	27,540
	35,203

10. Other loans and mortgages payable

		Secured by		
	Real Estate $000's	Mortages Receivable $000's	Due to Shareholders $000's	Total $000's
1979	4,998	1,164	100	6,262
1980	1,409	1,677	100	3,186
1981	3,807	—	340	4,147
1982	289	—	—	289
1983	608	—	—	608
1984 and subsequent	990	—	—	990
	12,101	2,841	540	15,482
Interim financing secured by certain properties under construction				7,687
				23,169

Latest year of maturity	1985	1980	1981
Fixed interest loans $000's	1,633	—	540
Range of interest rates	6-1/2% - 14%	—	12%
Weighted average interest rate	8.8%	—	12%
Variable interest loans $000's	10,468	2,841	—

Interest rates on these loans vary from 2% to 5% above the minimum lending rate charged by the Canadian chartered banks.

Due to shareholders

The amount of $540,000 due to certain shareholders is secured by a second assignment of certain assets of the Company.

11. Sinking fund debentures

	Maturity Date	Principal $000's	Payments Due 1979 $000's	Payments Due 1980-88 $000's
9% Convertible sinking fund debentures				
Series B	June 1, 1981	521	191	330
Series C	February 15, 1981	2,134	781	1,353
Series D	June 15, 1981	1,580	578	1,002
		4,235	1,550	2,685
Add currency adjustment (note (a) (iii) below)		928	340	588
		5,163	1,890	3,273
7-1/2% Convertible subordinated sinking fund debentures				
Series A	June 30, 1988	921	—	921
		6,084	1,890	4,194

(a) 9% Convertible sinking fund debentures

(i) Sinking fund payments

The Company is required to make payments of $1,550,000 annually to 1980. These payments are proportionately shared by the principal amount of each series outstanding on the October 5 immediately preceding the November 15 sinking fund payment date.

(ii) Convertible features

Each series is subdivided into two separate sub-series. The principal amount of such sub-series (series C and D sub-series being adjusted for the currency relationship noted in (iii) below) may be converted into common shares at any time prior to maturity as shown below:

Sub-Series	Conversion price for one common share
III	$4.00
IV	$5.00

The above conversion prices are subject to anti-dilution provisions.

(iii) Currency adjustment

Series C and D principal and interest payments, including sinking fund payments, are subject to adjustment (limited to a 25% increase or decrease) depending on any changes in the relative values of the Canadian and Federal Republic of Germany currencies, calculated at the date of or immediately prior to payment.

The maximum adjustment is carried as a deferred charge and is charged to income during the year sinking fund payments and conversions are made. The currency adjustment at December 31, 1978 would have been approximately 141% but for the 25% limitation.

(iv) Redemption

The debentures are redeemable on or before maturity, in order of sub-series III and IV, at par plus accrued interest (adjusted for the currency adjustment noted in (iii) above).

(v) Security

These debentures, Series B to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable, certain revenue producing real estate, certain land held for and under development and by a first floating charge on the assets and undertaking of Revenue Properties Company Limited. Substantially all of these mortgages receivable and real estate also secure various indebtedness which ranks in priority to this charge.

(b) 7-1/2% Convertible subordinated sinking fund debentures — Series A

(i) Convertible features

The debentures in the amount of $921,000 are due June 30, 1988 and are convertible into common shares of the Company on or before June 30 in the years 1983 at $8.91 per share and 1988 at $10.57 per share. These conversion rates are subject to anti-dilution provisions.

(ii) Sinking fund requirements

Sinking fund payments will not be required until at least 1987.

(iii) Redemption

The debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any other time if throughout the 180 days prior to the date on which notice of redemption is given the market price of the common shares has not been less than 125% of the conversion price then in effect.

(iv) Subordination

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to above and of certain other prior indebentures.

(v) Dividend restrictions

The payment of dividends is restricted by the terms of the Trust Indenture.

12. Bank indebtedness

	1978 $000's	1977 $000's
Bank indebtedness, unsecured	**1,568**	1,004
Bank loans, secured by construction in progress	**2,770**	3,313
Bank loans, secured by land held for and under development	**1,400**	—
Bank loans, secured by balances receivable for land sold under agreements of purchase and sale	**1,715**	1,253
Bank loans, see below	**4,909**	6,571
	12,362	12,141

Bank loans in the amount of $4,909,000 are secured by fixed and specific charges on certain accounts and mortgages receivable, certain revenue producing real estate, certain land held for and under development, and certain surplus lands. $4,542,000 of these loans are repayable in United States Eurodollars. The Company is required to purchase sufficient forward exchange contracts to repay the principal amount of such indebtedness. Interest rates on these loans are set half-yearly. These loans are non-revolving with repayments scheduled as follows:

	$000's
1979	1,918
1980	1,227
1981	1,764
	4,909

13. Deferred income

Unamortized profit on sale and leaseback and similar transactions	1978 $000's	1977 $000's
Balance, January 1	**2,969**	3,069
Additions through profit on construction sales with lease commitments attached thereto	**—**	97
Less: Amounts included in income	**(193)**	(197)
	(193)	(100)
Balance, December 31	**2,776**	2,969
Revenue attributed to cash flow guarantees and contracting profits applicable to anticipated operating losses, deferred to future years		
Balance, January 1	**966**	392
Portion of the selling price of residential buildings attributed to cash flow guarantees	**218**	574
Less: Amounts included in income	**(426)**	—
	(208)	574
Balance, December 31	**758**	966
Total Deferred Income	**3,534**	3,935

Approximately $565,000 of the above balance will be taken into income in 1979.

14. Capital stock

(a) Authorized

— 291,852.5 6% Cumulative, non-voting second preference shares, par value $10, redeemable at par.

— 16,500,000 (1977; 20,000,000) Common shares without par value. By special resolution of the shareholders dated June 22, 1978 the authorized share capital of the Company was reduced by 3,500,000 common shares.

(b) Issued and outstanding

Common shares	Shares	Amount
At December 31, 1978 and 1977	14,146,147	$27,324,000

(c) Reserved

The Company has reserved common shares for possible issue as follows:	No. of Shares
7-1/2% Convertible subordinated sinking fund debentures (see (i) below)	103,400
Stock options (see (ii) below)	20,000
9% Convertible sinking fund debentures (see (iii) below)	1,133,000
	1,256,400

(i) 7-1/2% Convertible subordinated sinking fund debentures

The conversion of these debentures at $8.91 per share would result in the issue of 103,400 common shares. Additional common shares would be reserved if the conversion price were to decline as the result of future share issues at prices below $8.91 per share (see note 11 (b) (i)).

(ii) Stock options

Options to purchase 20,000 common shares are held by two directors and officers as follows:

	Price	No. of Shares
5,000 shares before September 30, 1979	$0.50	5,000
5,000 shares in each of the five-year periods ending September 19, 1979 to 1981 inclusive	$0.63	15,000
		20,000

(iii) 9% Convertible sinking fund debentures

The conversion of these debentures, assuming the maximum currency adjustment applicable to Series C and D debentures as set out in note 11 (a) (iii) would result in the issue of approximately 1,133,000 common shares.

15. Lease and similar obligations

(a) The Company is the lessee under a number of cancelable and non-cancelable leases. Gross rental expense was $4,345,000 in 1978 ($3,910,000 in 1977). The gross income from the sublease of these assets and leasehold improvements attached thereto was $12,268,000 ($11,014,000 in 1977).

(b) The minimum lease commitments of Company as lessee as of December 31, 1978 for all noncancelable leases and the related rental income from existing subleases of leased assets and leasehold improvements attached thereto are as follows:

	Lease Commitments $000's	Rental Income $000's
1979	1,663	4,336
1980	1,506	1,811
1981	1,506	1,441
1982	1,506	1,238
1983	678	921
1984 - 1988	3,049	2,510
1989 - 1993	2,613	1,968
1994 - 1998	1,782	792
Thereafter	16,590	—

The Company's minimum lease commitments, as above, are exclusive of operating expenses.

Certain lease agreements permit the termination of continuing obligations upon the payment of a specified amount pertaining to each, the total amount of such payments being $1,464,000. Certain lease agreements contain renewal options.

16. Contingent liabilities

The Company includes in its balance sheet the proportionate share of the assets and liabilities of its unincorporated joint ventures and partnership. The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures and partnership. This contingent liability is approximately $21,000,000 as at December 31, 1978. Against this contingent liability, the Company has recourse to all of the assets of each joint venture and partnership as well as the assets of the participants to the extent it is required to pay liabilities in excess of its proportionate share.

17. Legal proceedings

On January 30, 1974, Century City Developments Limited (a subsidiary of the Company) filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of land expropriated by the Government of Canada in May, 1973 and for injurious affection to its land adjacent thereto. The claim was settled in June, 1978 for the sum of $1,150,000.

18. Consolidated statement of income

(a) Interest expense

	1978 $000's	1977 $000's
Debentures — interest	**682**	852
— currency adjustment on principal	**340**	340
Mortgages	**5,591**	4,865
Other	**1,932**	1,946
	8,545	8,003
Less amounts capitalized	**3,705**	3,793
	4,840	4,210

(b) Earning (loss) per share

Earnings (loss) per share is calculated using the weighted average number of shares outstanding of 14,146,147 in 1978 and 1977.

The conversion of all convertible debentures or the exercise of outstanding options would not have a dilutive effect on earnings per share and consequently fully diluted earnings per share is not provided.

(c) Remuneration

Aggregate direct remuneration paid to directors and senior officers as defined by The Business Corporations Act of Ontario was $344,500 in 1978 ($325,500 in 1977).

(d) Rent controls

The residential rental operations of the Company and its subsidiaries are subject to the rent controls of the various provinces in which they operate.

19. Quarterly financial data (unaudited)

Summarized quarterly financial data for 1978 is as follows:

	Three Months Ended			
	March 31 $000's	June 30 $000's	September 30 $000's	December 31 $000's
Gross revenue	5,853	6,181	6,642	13,396
Gross profit	1,513	1,436	1,419	1,299
Net income (loss)	(153)	736	(231)	9
Earnings (loss) per share	(1.1¢)	5.2¢	(1.6¢)	0.1¢

Summarized quarterly financial data for 1977 as reclassified is as follows:

	Three Months Ended			
	March 31 $000's	June 30 $000's	September 30 $000's	December 31 $000's
Gross revenue	7,025	6,973	8,241	9,919
Gross profit	1,489	1,625	1,108	1,208
Net income (loss)	53	(1,703)	(178)	(1,007)
Earnings (loss) per share	.4¢	(12.0¢)	(1.3¢)	(7.1¢)

20. Unused financing commitments

It is the policy of the Company to obtain commitments for mortgage financing on all residential construction projects at or prior to the commencement of construction. The unused portion of these commitments is in excess of the estimated costs to complete all housing units under construction.

21. Deferred income taxes

Deferred income taxes result from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	1978 $000's	1977 $000's
Capital cost allowance under book depreciation	**(58)**	(65)
Prior years' timing differences resulting in tax losses which are applied in the current year	**—**	524
Net differences resulting from method of deferring income for tax and book purposes	**27**	49
Net differences resulting from inter-company transactions	**—**	(447)
Operating losses for which future recovery of taxes is provided	**(368)**	(1,889)
Prior years' timing differences, previously unrecognized	**361**	205
Deferred income tax recovery	**(38)**	(1,623)

Expected tax recovery differs from actual tax recovery as follows:

	1978		1977	
	$000's	**%**	$000's	%
Computed expected tax recovery	**(19)**	**(50.0)**	(2,331)	(50.0)
Change in expected tax recovery resulting from:				
— operating loss in subsidiary company for which no future recovery of taxes was provided	**—**	**—**	687	14.7
— other sundry items	**(19)**	**(50.0)**	21	0.5
Tax recovery	**(38)**	**(100.0)**	(1,623)	(34.8)

22. Partnership agreement

In order to replace the then existing employment arrangement with Michael G. Wright, effective January 1, 1977 the Company entered into a partnership with M.G. Wright Construction Limited, a corporation of which Mr. Wright is a substantial shareholder. Mr. Wright is a director of Revenue Properties Company Limited and an officer of certain of its subsidiaries. The partnership acquired from the Company, at fair market value, construction in progress, land held for and under development and two revenue producing buildings and assumed the liabilities attached thereto. Profits and losses of the partnership, which is known as Les Amengements Revcon-Revcon Developments, are shared 75% to the Company and 25% to M.G. Wright Construction Limited. The effect of this arrangement on the Company's financial statements for the year ended December 31, 1977 was to increase sales of revenue producing real estate, construction and real estate under development by $2,803,000, which approximates their cost. To the extent that the assets acquired exceeded the liabilities assumed the transactions gave rise to an interest bearing account receivable from M.G. Wright Construction Limited, which together with transactions to December 31, 1978 was $1,927,000 (December 31, 1977; $1,546,000). (See note 6).

23. 1978 and 1977 share trading (unaudited)

The following is a summary of trading on the Toronto Stock Exchange per share by quarters:

	1978				1977			
	4th	3rd	2nd	1st	4th	3rd	2nd	1st
High	1.60	1.24	1.23	.93	.86	.82	.77	.79
Low	1.12	1.01	.83	.75	.65	.67	.65	.65

24. Reclassification of 1977 comparative figures

1977 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1978.

FIVE YEAR SUMMARY OF OPERATIONS

(1974-1977 as restated and/or reclassified)

	Years Ended December 31				
	1978 $000's	1977 $000's	1976 $000's	1975 $000's	1974 $000's
Rental operations					
Income from revenue producing real estate	14,982	12,767	12,235	11,229	10,828
Property operating expenses	10,643	8,621	7,912	7,207	6,847
Depreciation	460	436	389	362	321
	3,879	3,710	3,934	3,660	3,660
Sales of revenue producing real estate	1,187	3,475	4,218	4,329	489
Cost of sales	737	3,408	3,143	3,956	506
	450	67	1,075	373	(17)
Sales of construction, land held for and under development and surplus land	14,977	14,513	16,541	4,726	7,729
Cost of sales	14,565	14,263	15,398	4,089	6,605
	412	250	1,143	637	1,124
Other income	926	1,403	937	1,133	1,166
Gross profit from operations	5,667	5,430	7,089	5,803	5,933
Interest expense less amounts capitalized	4,840	4,210	3,447	3,134	2,888
Other expenses	1,691	1,956	1,936	1,661	1,648
Proceeds of lawsuit net of cost	(826)	—	—	—	—
Provision for loss on real estate	—	3,927	—	—	—
Income (loss) before income taxes and extraordinary item	(38)	(4,663)	1,706	1,008	1,397
Income taxes	(38)	(1,623)	721	363	645
Income (loss) before extraordinary item	—	(3,040)	985	645	752
Extraordinary item					
Deferred income tax reduction	361	205	141	70	33
Net income (loss) for the year	361	(2,835)	1,126	715	785
Interest capitalized	3,705	3,793	4,756	3,675	3,056
Earnings (loss) per share					
Before extraordinary item	—	(21.5¢)	7.0¢	4.5¢	5.3¢
After extraordinary item	2.6¢	(20.0¢)	8.0¢	5.0¢	5.5¢
Average number of shares (in thousands)	14,146	14,146	14,146	14,146	14,146

SUMMARY OF PRINCIPAL HOLDINGS

Company's Proportionate share

DECEMBER 31, 1978

	Number of Residential Units Completed	Approximate Rental Area (sq. ft.)
Revenue producing property owned:		
Industrial		
Toronto, Ontario		732,200
Montreal, Quebec		958,000
Calgary, Alberta		24,000
Commercial and Residential		
Toronto, Ontario		
The Colonnade	158	84,000
Bloor Street	16	10,600
Yonge Street		7400
Jane Street	773	—
Cavell Avenue		6,100
Charles Street		7,000
Oakville, Ontario — Shopping Centre		6,900
Montreal, Quebec		69,900
Saint John, New Brunswick		102,650
Hill Island (Lansdowne), Ontario		50 unit motel
Revenue producing property sold and leased back:		
Residential		
Toronto, Ontario	817	
Halifax, Nova Scotia	240	
Saint John, New Brunswick	152	
Commercial		
Toronto, Ontario		9,200
Halifax, Nova Scotia		143,500
Saint John, New Brunswick		102,650
Industrial		
Toronto, Ontario		646,600
Montreal, Quebec		206,800
	2,156	3,117,500

Land held for and under development

Location	Proposed Use	Approximate Number of Acres	% Company Participation
Ontario			
Acton	Residential	94	75
Ajax	Multiple	294	100
Etobicoke	Residential	5	100
Guelph	Multiple	879	75
Oakville	Residential	4	37.5
Pickering	Residential	80	100
Port Dover	Commercial & Residential	93	33.3
Simcoe	Residential	7	33.3
Toronto	Commercial	1	50
Uxbridge	Multiple	676	100
Vaughan	Multiple	215	44
Whitchurch — Stouffville	Industrial	115	100
Quebec			
Boucherville	Multiple	275	75
Pointe Claire	Industrial & Commercial	7	75
Surplus land			
Ontario			
Uxbridge	Sale without development	2,848	100
		5,593	

Construction in progress

Location	Type of Unit	Number of Units	
Ontario			
Guelph	Housing	33	75
Mississauga	Housing	5	50
Oakville	Housing	1	50
Pickering	Housing	2	100
Port Dover	Housing	25	100
Etobicoke	Residential rental (lease)	455	50
Quebec			
Boucherville	Housing	66	75
		Square Feet Under Construction	
Ontario			
Mississauga	Commercial	72,051	100
Quebec			
Montreal	Industrial & Commercial	67,000	75

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